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SUBJECT: CYPRUS: 2010 INVESTMENT CLIMATE STATEMENT

REFS: (A) 09 STATE 124006, (B) 09 NICOSIA 0021

Per Ref A request, Post submits below the 2010 Investment Climate Statement (ICS) for Cyprus. Each section covers both the government-controlled area in the south and the non-recognized "area administered by Turkish Cypriots" in the north of the island. We will also e-mail a copy of this text to David J. Ahn and Thomas J. Walsh, as requested.

BEGIN TEXT

INVESTMENT CLIMATE STATEMENT ON CYPRUS, 2010

Openness to Foreign Investment

Government-Controlled Area:

Cyprus, a full EU member since May 1, 2004, has a liberal climate for investments. The sectors of niche tourism, energy, shipping, desalination and water management services offer excellent potential for inward investment. At the same time, the Government of Cyprus offers incentives in the field of research and technology.

International companies may invest and establish business in Cyprus on equal terms with local investors in most sectors. Foreign investors can register a company directly with the Registrar of Companies, and are eligible to obtain any license, if needed, from the appropriate authority depending on the nature of investment.

Since 2004, the GOC has eliminated most capital restrictions and limits on foreign equity participation or ownership, thereby granting national treatment to investors outside the EU. Non-EU investors (both natural and legal persons) may now invest freely in Cyprus in most sectors, either directly or indirectly (including all types of portfolio investment in the Cyprus Stock Exchange). The only exceptions concern the acquisition of property and, to a lesser extent, ownership restrictions on investment in the sectors of tertiary education, mass media, banking and construction (see "Right to Private Ownership and Establishment").

There is no mandatory screening of foreign investment. Foreign investors can register a company directly at the Registrar of Companies through qualified accountants or lawyers, a procedure identical to that for local residents. Similarly, foreign investors may now acquire shares in an existing Cypriot company directly, without prior authorization by the Central Bank. They are expected, however, to inform the Registrar of Companies about any change in ownership status. Foreign investors are required to obtain all permits that may be necessary under Cypriot law to do business in Cyprus. For example, they may need to obtain a municipal permit to set up a kiosk or abide by prevailing health standards to own and

operate a catering company, etc. Furthermore, non-EU residents wishing to take up employment in Cyprus must obtain work permits issued by the Migration Department.

In 2007, the GOC established the Cyprus Investment Promotion Agency (CIPA) tasked with attracting foreign investment, advising foreign investors, and providing assistance to them. The CIPA operates as a private organization reporting to the Ministry of Commerce, Industry, and Tourism and works in tandem with the "Point of Single Contact," under the same ministry. Through these two organizations, Cypriot authorities offer expedited processing by other GOC departments for larger projects (over USD 2.5 million) in line with country-sustainable growth, e.g. benefiting Cyprus' economic development goals and objectives. Additional information, including a PDF "Guide for Foreign Investors," and information on expedited treatment of investment applications can be obtained from the two organizations directly:

Point of Single Contact
Ministry of Commerce, Industry & Tourism
13-15 Andreas Araouzou
1421 Nicosia
Cyprus
Tel. +357 22 409433, or 328
Fax: +357 22 409432
Email: onestopshop@mcit.gov.cy
Website: www.businessincyprus.gov.cy
(currently under construction)

Cyprus Investment Promotion Agency
Severis Building
9 Makariou III Ave.
4th Floor
Nicosia
1065 Cyprus
Tel.: +357 22 441133
Fax .: +357 22 441134
E-mail: info@cipa.org.cy
Website: www.cipa.org.cy

Registering a Company

The process of registering a company involves submitting an application for the approval of the legal entity's name at the Registrar of Companies or at the Point of Single Contact for a small fee (slightly more for an accelerated procedure). The applicant may submit the form in person, through a lawyer or by mail (accompanied by a check in the name of the Registrar of Companies. The company names already registered in Cyprus may be reviewed by visiting the following website:

http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/index_en/index_en?opendocument

After securing the legal entity's name, the relevant documents for the legal entity's registration (i.e. Memorandum of Understanding, Articles of Association, etc.) are to be submitted depending on the type of the legal form of the entity. In case of registering a company (private or public) the documents are to be submitted through an advocate / lawyer practicing in Cyprus. For a complete list of lawyers, please visit the Cyprus Bar Association's website:

www.cyprusbarassociation.org

Different types of legal entities may be registered at the Department of Registrar of Companies and Official Receiver. These types include: Company (Private or public), Branch Company, General or Limited partnership, European Company and Business Name. Additional information regarding "Legal Forms of Entities" and "Incorporation Fees" is available from:

<http://www.cipa.org.cy/cipa/cipa.nsf/All/6A15D813808B2A2DC22571BC0027D098?OpenDocument>

Area Administered by Turkish Cypriots:

Since 1974, the southern part of Cyprus has been under the control of the Government of the Republic of Cyprus, while the northern part has been administered by a Turkish Cypriot administration, which proclaimed itself the "Turkish Republic of Northern Cyprus" ("TRNC") and has not been recognized by any country except for Turkey. Turkish Cypriot authorities actively encourage foreign investment, giving preference to foreign investments facilitating the transfer of modern technology, know-how and new management technologies, as well as investment in export-oriented industries. There are no particular restrictions for specific sectors, except for projects deemed threatening to "national security." Complications arising, however, from the lack of international recognition of the "TRNC" and the continuing non-resolution of the Cyprus problem, especially regarding property, should be taken into consideration by the foreign investor (see section on "Protection of Property Rights" for additional information).

The authorities in the area administered by Turkish Cypriots established YAGA - the Turkish Cypriot Investment Development Agency - in 2007 with the aim of creating a one-stop-shop for both local and foreign investors.

"North Cyprus Investment Development Agency"
Tel: 90 392 228 9378
Website: <http://www.investinnorthcyprus.org>
E-mail: ayse.donmezer@investinnorthcyprus.org

Conversion and Transfer Policies Government-Controlled Area:

In recent years, Cyprus has progressively lifted restrictions on the transfer of funds in and out of the country pertaining to foreign investors. Currently, there are no restrictions on remittances for investment capital, earnings, loan repayments, lease payments or other business transactions.
Area Administered by Turkish Cypriots:

There is no limitation on the transfer of goods and proceeds from the area administered by Turkish Cypriots. Foreign investors have the right to take part in the operation and/or management of a company, to repatriate all investments and all capital (if anticipated in the initial article of association of the company), to take part in profits, and to transfer and reinvest profits, including the trade of currency. The foreign investor may make use of all the rights guaranteed by the domestic legal framework.

Expropriation and Compensation Government-Controlled Area:

In the government-controlled area, nationalization has never been government policy and it is not contemplated in the future. Private property is only expropriated for public purposes in a non-discriminatory manner and in accordance with established principles of international law. In cases where expropriation is necessary, due process is followed and there is transparency of purpose. Investors and lenders to expropriated entities receive compensation in the currency in which the investment is made. In the event of any delay in the payment of compensation, the Government is also liable for the payment of interest based on the prevailing 6-month LIBOR for the relevant currency.

Area Administered by Turkish Cypriots:

The "TRNC constitution" guarantees the right of private property in the area administered by Turkish Cypriots and does not discriminate between citizens and aliens. Furthermore, Turkish Cypriot authorities state that nationalization has never been part of their policy and that they do not contemplate any such action in the future. However, Turkish Cypriot authorities do not grant any protection for Greek Cypriot properties in the north. For information pertaining to the risks associated with investing in Greek Cypriot property in the north or in Turkish Cypriot property in the government-controlled area, please see the section on "Protection of Property Rights."

The 1974 events have resulted in a number of claims of U.S. persons in the area administered by Turkish Cypriots, even though U.S. interests were not specifically targeted. The most well-known case concerns a U.S. copper mining company that was forced to terminate its operations in 1974. The company's property and assets were confiscated in 1975 without compensation by military and civilian authorities representing Turkey and the Turkish Cypriot administration.

Foreign investors have the legal right to claim any damages that have been made by non-legal means or by incorrect performance of responsibilities by state representatives of governmental bodies. We have no information regarding the effectiveness of this approach.

Dispute Settlement Government-Controlled Area:

There have been no cases of investment disputes or outstanding expropriation/ nationalization cases in recent years. Effective means are available for enforcing property and contractual rights. Under the Arbitration Law of Cyprus, an arbitrator is appointed when the parties' attorneys cannot settle a dispute between the parties to an agreement. The court may enforce an arbitral award in the same way as a judgment. In 1979, Cyprus became a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and a foreign award may be enforced in Cyprus by an action in common law. Cyprus is also a signatory to the Convention on the Settlement of Disputes Between States and Nationals of Other States.

Area Administered by Turkish Cypriots:

The foreign investor may make use of all the rights guaranteed by the domestic legal framework.

Performance Requirements and Incentives

Government-Controlled Area:

Cyprus offers many advantages to foreign investors, including a strategic geographical location, favorable business climate, low corporate and personal tax rates, relatively stable macroeconomic environment, modern legal, banking, and financial system, excellent telecommunications and infrastructure, a highly-educated labor force, and widespread knowledge of English. These advantages have encouraged thousands of foreign investors to set up companies in Cyprus, structuring their investments through a holding company on the island or investing here directly. As a result, the number of annual company registrations continues to grow, particularly since EU accession in 2004.

A low level of taxation is one of Cyprus's major advantages. At 10 percent, Cyprus's corporate tax rate is currently the lowest among the EU's 27 countries. Cyprus's other tax advantages include:

- one of the EU's lowest top statutory personal income tax rates at 30 percent;
- an extensive double tax treaties network with over 40 countries, enabling lower withholding tax rates on dividend or other income received from the subsidiaries abroad;
- no withholding tax on dividend income received from subsidiary companies abroad under certain conditions;
- no withholding tax on dividends received from EU subsidiaries.

A full description of Cyprus's investment incentives will be available soon from the following website, currently under construction:

Website: www.businessincyprus.gov.cy

Cyprus does not have a rigid system of performance requirements for foreign investment across the board and has signed the WTO's

Trade-Related Investment Measures (TRIMS) agreement. Applications by non-EU residents for investment in Cyprus are judged on their own merit.

Area Administered by Turkish Cypriots:

The area administered by Turkish Cypriots offers generous incentives for investing on "state property." Specifically, after an initial screening, investments granted an Incentive Certificate may benefit from the leasing of "state-owned" land and buildings at very preferential rates.

However, prospective investors should be knowledgeable about the risks associated with the purchase, lease or use of property. The "TRNC Constitution" -- Article 159 (1) (b), May 7, 1985 - defines "state property" as: "All immovable properties, buildings and installations which were found abandoned on 13 February 1975 when the "Turkish Federated State of Cyprus" was proclaimed or which were considered by law as abandoned or ownerless after the above-mentioned date, or which should have been in the possession or control of the public even though their ownership had not yet been determined ... and ... situated within the boundaries of the "TRNC" on 15 November 1983 ... notwithstanding the fact that they are not so registered in the books of the Land Registry Office."

It must be stressed, though, that the Republic of Cyprus outright rejects such claims and, specifically, it does not recognize title changes effected in the north by the Turkish Cypriot administration since 1974. As stated under the "Protection of Property Rights" section of this report, potential investors should be cautious and obtain independent legal advice concerning purchasing or leasing property in the north.

The area administered by Turkish Cypriots also offers the following investment incentives:

-- Investment Allowance. The "TRNC State Planning Organization (SPO)" offers an investment allowance in the form of Incentive Certificates equivalent to: (a) 200 percent on the initial fixed capital investment for investments in Priority Development Regions, such as the regions of Guzelyurt (Morphou) and Karpaz (Karpasia) and (b) 100 percent on the initial fixed capital investment in other sectors.

-- Exemption from Custom Duties and Funds. Importation of machinery and equipment for an investment project are exempt from every kind of custom duty, in accordance with the Incentive Certificate. Regulations on importation of raw materials and semi-finished goods are specified by the "Prime Ministry" and subject to the approval of the "Council of Ministers."

-- Zero VAT Rate. Both imported and locally purchased machinery and equipment is subject to a zero VAT rate, in accordance with the Incentive Certificate.

-- Fund Credits. Long term and low rate investment credits are available from the Investment and Export Incentive Fund.

-- Exemption from Construction License Fee and Reduced Mortgage Fees. Investments granted an Investment Certificate are exempt from all kinds of construction license fees and taxes and also benefit from reduced stamp duty and mortgage fees.

-- Other Tax Allowances. (a) A 50 percent allowance is given on the Initial Investment Allowance. This rate can increase up to 100 percent for priority sectors and regions, with a "Council of Ministers" decision. (b) Annual wear and tear allowances for machinery and equipment (10 percent); motor vehicles (15-25 percent); industrial buildings and hotels (4 percent); shops and residences (3 percent), furniture and fixtures (10 percent). (c) Other tax allowances include a VAT exemption for exports of all goods and services and a 20 percent exemption from corporate tax for exports of goods and services.

-- "State owned" land and building lease

-- Fund credits

The North Cyprus Investment Development Agency was created in late 2007 with the responsibility of approving all investment and providing incentives. Contact information:

"North Cyprus Investment Development Agency"
Tel: 90 392 228 9378
Website: <http://www.investinnorthcyprus.org>
E-mail: ayse.donmezer@investinnorthcyprus.org

Right to Private Ownership and Establishment

Government-Controlled Area:

Aside from real estate acquisition issues, outlined in the next section, several other restrictions infringe on the foreign investor's right to private ownership and establishment in Cyprus. For example, current Cypriot legislation restricts ownership of local electronic mass media companies (e.g. TV and radio stations but excluding print media) to a ceiling of 25 percent of each local media company for EU investors, and to just 5 percent of each local media company for non-EU investors.

Furthermore, under the Registration and Control of Contractors Laws of 2001 and 2004, the right to register as a building contractor in Cyprus is reserved for citizens of EU member states. Non-EU entities are not allowed to own a majority stake in a local construction company. Non-EU physical persons or legal entities may bid on specific construction projects but only after obtaining a special license by the Council of Ministers.

Finally, there is a restriction, applying equally to Cypriot as well as foreign investors, regarding investment in the banking sector. The Central Bank's prior approval is necessary before any individual person or entity, whether Cypriot or foreign, can acquire over 9.99 percent of a bank incorporated in Cyprus (whether listed on the Cyprus Stock Exchange or not).

Area Administered by Turkish Cypriots:

Registered foreign investors may buy property for investment purposes. Foreign natural persons also have the option of forming private liability companies and foreign investors can form mutual partnership with one or more foreign or domestic investors.

Protection of Property Rights

Government-Controlled Area:

Cypriot law imposes significant restrictions on the foreign ownership of real estate by non-EU residents. Non-EU persons and entities may purchase only a single piece of real estate (not to exceed three donums, or roughly one acre) for private use (normally a holiday home). Exceptions can be made for projects requiring larger plots of land (i.e., beyond that necessary for a private residence), but they are difficult to obtain and are rarely granted.

Specifically, the Acquisition of Real Estate (Aliens) Cap and the Amending Laws of 2003, in force since May 1, 2004, provides that non-EU member State citizens, legal entities registered in non-EU countries, and EU registered legal entities controlled by non-EU citizens (as per the definition below), can acquire real estate subject to the approval of the relevant District Administration Offices. In case the real estate concerned exceeds two donums (one donum = 1338 square meters), approval may be granted only for residential purposes (not exceeding an area of three donums), professional or commercial premises, and industrial sectors deemed beneficial for the Cypriot economy and relate to the production of products or the utilization of new technology and/or technological know-how.

The definition of a legal entity controlled by non-EU citizens is as follows:

- 50 percent or more of its board members are non-EU citizens;
- 50 percent or more of its share capital belongs to non-EU

citizens;

-- control belongs by 50 percent or more to non-EU citizens;

-- Either its Memorandum or Articles of Association provides authority to a non-EU citizen securing that the company's activities are conducted based on his/her will during the real estate acquisition period. In the case that the authority is provided to two or more persons, a legal entity is considered to be controlled by non-EU citizens if 50 percent or more of the people granted such authority are non-EU citizens.

For additional information and application forms for the acquisition of property by non-EU residents, the various District Administration Offices can be contacted through the Ministry of Interior website: <http://www.moi.gov.cy/da>

The legal requirements and procedures for acquiring and disposing of property in Cyprus are complex but professional help by real estate agents and developers can ease the burden of dealing with the GOC bureaucracy. This procedure involves Central Bank verification that funds from abroad are to be used by non-EU residents to purchase real estate. It also involves final approval by the Council of Ministers, which is given routinely for holiday homes.

The Government's Department of Lands and Surveys prides itself in keeping meticulous records and in following internationally-accepted procedures (which have changed little since British colonial times).

Non-residents are allowed to sell their property and transfer abroad the amount originally paid, plus interest or profits without restriction.

Property claims across the buffer zone constitute one of the thorniest aspects of the Cyprus problem. As a result, investors are well-advised to consider the risks associated with Greek Cypriot property in the north and Turkish Cypriot property in the government-controlled area. Several high-profile cases have already been brought before the European Court of Justice and other international bodies, while other cases are still pending.

The following GOC website provides additional information on the risks of investing in the northern part of Cyprus:

http://www.mfa.gov.cy/mfa/properties/occupied_area_properties.nsf/index_en/index_en?OpenDocument

Furthermore, there are politically-oriented restrictions to investing in Turkish Cypriot property in the government-controlled area of Cyprus. The Turkish Cypriot Property Management Service, established in 1991, administers properties of Turkish Cypriots who are not ordinarily residents of the government-controlled area. This service acts as the temporary custodian for such properties until termination of the abnormal political situation. The TCPMS is mandated to administer properties under its custodianship "in the manner most beneficial for the owner." Most importantly, ownership of TC properties cannot change (unless for inheritance purposes) except in exceptional cases when this is beneficial for the owner or necessary for the public interest.

On the intellectual property front, the Government-controlled area of Cyprus has a modern set of laws, which it continues to upgrade. Enforcement is typically quite diligent, although it could be improved further. The Adoption of the Copyright Law in 1994 and the subsequent adoption of the Patents Law in 1998 were important legal milestones in this context, helping Cyprus comply with its obligations under the WTO TRIPS agreement.

Area Administered by Turkish Cypriots:

Property remains one of the key outstanding issues that constitute the Cyprus problem. The absence of a political settlement and the lack of international recognition for the "TRNC" pose an inherent risk for the foreign investor interested in buying or leasing property in north Cyprus. Potential investors should be cautious and obtain independent legal advice concerning purchasing or leasing property in the north. Unless the property in question was in Turkish Cypriot hands prior to 1974, it will be very unlikely that

the title to the land will be free and unchallengeable. Property issues will be at the heart of any settlement of the Cyprus problem and will involve the return of property and/or compensation to those displaced in 1974. The Republic of Cyprus does not recognize title changes in the north since 1974. Estimates of the percentage of land in the north that belonged to Greek Cypriots pre-1974 run as high as 85 percent. Determining the history of land in the north can be difficult. Foreign buyers of land may also face legal challenges from those displaced in 1974 either in Republic of Cyprus courts or courts in their country of residence. In response to the ECHR's 2005 ruling in the Xenides-Arestis case that Turkey's "subordinate local authorities" in Cyprus had not provided an adequate local remedy for Greek Cypriot claims, Turkish Cypriot authorities established a "Property Commission" to handle claims by Greek Cypriots (please see website below). In 2006 the "Property Commission" began reviewing Greek Cypriot claims and had reportedly received over 500 applications by the end of 2009.

<http://www.northcyprusipc.org/>

On January 19, 2010, the UK Court of Appeal enforced an earlier court decision taken in the Government-controlled area backing a Greek Cypriot person's efforts to claim trespassing (the Orams case) effectively voiding property transfers of Greek Cypriot property in the Turkish Cypriot controlled sector. As a result of the ruling, the Orams -- a British couple, who had bought the land and built a holiday home on it -- have been ordered to pay compensation and court fees, demolish the home, halt all improvements on the property, and deliver it to its legal owner. This ruling by the Cypriot court is enforceable against the Oram's assets in the UK per the UK Court of Appeal and the European Court of Justice. Lawyers believe that the effect of this case is that assets of any individual in an EU member state could be attached in settlement of property cases in north Cyprus based on court decisions in the Republic of Cyprus.

The UK Foreign and Commonwealth Office website

(<http://www.fco.gov.uk/en/about-the-fco/count-ry-profiles/europe/cyprus>) notes:

"The ownership of many properties is disputed across the island, and particularly in northern Cyprus, with many thousands of claims to ownership of properties from people displaced during the events of 1974. Purchase of these properties could have serious financial and legal implications. The European Court of Human Rights has ruled in a number of cases that owners of property in northern Cyprus prior to 1974 should continue to be regarded as the legal owners of that property. Purchasers could face legal proceedings in the courts of the Republic of Cyprus, as well as attempts to enforce judgements from these courts elsewhere in the EU, including the UK. Potential purchasers should also consider that a future settlement could have consequences for property they purchase in Cyprus (including possible restitution of the property to its original owners)."

Foreign investors have the right to claim any damages that have been made by non-legal means or by incorrect performance of responsibilities by state representatives of governmental bodies, in accordance with the law.

Intellectual property rights are not adequately protected in the area administered by Turkish Cypriots, where laws in this area are inadequate and antiquated and enforcement sorely lacking.

Transparency of Regulatory System Government-Controlled Area:

In the government-controlled area, existing procedures and regulations affecting business (including foreign investment regulations, outlined in section A.1.) are generally transparent and applied in practice without bias.

In some cases, U.S. companies competing on government tenders have expressed concerns about lack of transparency and the appearance of bias in decisions made by the technical committees responsible for preparing specifications and reviewing tender submissions. The U.S. Embassy monitors these tenders closely to ensure a level playing

field for U.S. businesses.

Area Administered by Turkish Cypriots:

The area administered by Turkish Cypriots has made strides in recent years in terms of adopting a more transparent regulatory system. However, the level of transparency still lags behind European or U.S. standards. A common complaint among businessmen in north Cyprus is that the court system is overloaded, resulting in long delays.

Efficient Capital Markets and Portfolio Investment

Government-Controlled Area:

Cyprus has modern and efficient legal, banking and financial systems. EU accession on May 1, 2004 was instrumental in establishing an efficient capital market in Cyprus, through the abolition of such restrictions as the interest rate ceiling in 2001, and exchange controls for residents.

Credit to foreign and local investors alike is allocated on market terms. The private sector has access to a variety of credit instruments, which has been enhanced through the operation of private venture capital firms. The banking sector is generally sound and well-supervised.

Since its official launch in 1996, the Cyprus Stock Exchange (CSE) has gone through two boom-and-bust cycles - the first during 1998-2001 (largely attributable to endogenous factors and shortcomings), and the second during 2005-2008 (mainly resulting from exogenous factors). The CSE is currently the EU's third-smallest stock exchange, ahead of Malta and Slovakia, with a capitalization of around Euros 7.3 billion (USD 10.7 billion) as of January 2010. Since 2006, the CSE and the Athens Stock Exchange (ASE) operate from a joint trading platform, allowing capital to move more freely from one exchange to the other, even though both exchanges retain their autonomy and independence. The joint platform has increased capital available to Cypriot firms and improved the CSE's liquidity.

Foreign investors may acquire up to 100 percent of the share capital of Cypriot companies listed on the CSE with the notable exception of companies in the banking sector. The Central Bank's prior approval is necessary before any individual person or entity, whether Cypriot or foreign, can acquire over 9.99 percent of a bank incorporated in Cyprus (whether listed on the CSE or not).

On January 1, 2008, Cyprus joined the Eurozone, adopting the Euro as the national currency. For a small country like Cyprus, this development has many significant long-term economic benefits, including a higher degree of price stability, reduction of currency conversion costs and exchange rate risk, and increased competition through greater price transparency. However, more than a year after adopting the Euro, Cyprus continued having stubbornly high interest rates (highest in the Eurozone in January 2010).

Area Administered by Turkish Cypriots:

The financial system in the area administered by Turkish Cypriots is linked closely with that of Turkey. The Turkish Lira (TL) is the main currency in use although the Euro, U.S. dollar and British Sterling are frequently used. The vast majority of borrowing comes from domestic sources and Turkey. There is no stock exchange in the area administered by Turkish Cypriots.

Currently, there are 24 commercial banks plus a Development Bank operating. Seven are branches of Turkish banks. Total bank deposits are around USD 6 billion as of 2008.

Competition from State-Owned Enterprises (SOEs)

Government-Controlled Area:

Cyprus has no Sovereign Wealth Fund but it does have about a dozen organizations exclusively or majority-owned by the State providing

common utilities, and other essential services. These are autonomous organizations (commonly referred to locally as "Semi-Government Organizations") but they are subject to control and supervision by the Executive, as well as the House of Representatives. The most important of these organizations are:

- Cyprus Airways
- Cyprus Broadcasting Corporation
- Cyprus Land Development Corporation
- Cyprus Ports Authority
- Cyprus Sport Organization
- Cyprus State Fairs Authority
- Cyprus Telecommunication Authority
- Cyprus Theatre Organization
- Cyprus Tourism Organization
- Electricity Authority of Cyprus
- Natural Gas Public Company of Cyprus

These organizations are active in different fields respectively, as suggested by their names, and each is different in terms of structure, scope, corporate culture, etc. They have independent boards of directors, typically including politically-affiliated individuals. They invariably publish annual reports and submit their books to independent audits.

In years past -- prior to Cyprus' EU accession -- many of these organizations used to enjoy state-sanctioned monopolies in their respective fields. However, Cyprus' EU accession on May 1, 2004 ushered in a new era allowing competition from the private sector, particularly in sectors with large commercial potential such as telecommunications, and air transport. However, in some progress towards a more competitive environment has been relatively slow, and there are still a few hurdles to be overcome, especially in some sectors. For example, power generation for households remains off limits to private competition until 2013, thanks to a derogation from the EU, while power generation for industrial consumers has opened up partially. The importation of natural gas was made a monopoly of a semi-government enterprise in 2009.

For more information on each of these organizations, please visit:

http://www.cyprus.gov.cy/portal/portal.nsf/Al_1/F24141

09880E837BC2256FA3002FEA11?OpenDocument&a=1&z =

For more information on the Commission for the Protection of Competition, responsible for the harmonious operation of the market and fair competition, please visit:

http://www.competition.gov.cy/competition/competition.nsf/index_en/index_en?opendocument

Corporate Social Responsibility (CSR)

Government-Controlled Area:

In recent years, CSR awareness among both producers and consumers is growing in Cyprus. Leading foreign and local enterprises tend to follow generally-accepted CSR principles, while firms pursuing these practices tend to be viewed more favorably by the public.

Political Violence

There have been no incidents of politically-motivated serious damage to foreign projects and or installations since 1974. However, it behooves the foreign investor who is interested in Cyprus to have at least a basic understanding of the existing political situation on the ground.

Cyprus has been divided since the Turkish military intervention of 1974, following a coup d'etat directed from Greece. Since 1974, the southern part of the island has been under the control of the internationally recognized Government of the Republic of Cyprus. The northern part of the island is administered by a Turkish Cypriot administration. In 1983, that administration proclaimed itself the "Turkish Republic of Northern Cyprus" ("TRNC"). The "TRNC" is not

recognized by the United States or by any other country except Turkey. The two parts are separated by a buffer zone patrolled by United Nations forces. A substantial number of Turkish troops remain on the island.

There has been no serious inter-communal violence since 1974, other than an isolated incident in 1996 resulting in the deaths of two Greek-Cypriot civilians during a demonstration in the buffer zone. The partial lifting of travel restrictions between the two parts of the island in April 2003 has allowed movement of persons - over 16.5 million crossings to date -- between the two parts of the island. In August 2004, new EU rules allowed goods produced in the north to be sold in the south provided they were produced or "substantially transformed" in the north. Shortly thereafter, the Turkish Cypriot "authorities" adopted a new regulation "mirroring" the EU rules and allowing certain goods produced in the south to be sold in the north. Nevertheless, trade between the two communities remains rather limited. In 2009, Green Line (GL) trade from the Turkish Cypriot community (TCC) to the Greek Cypriot community (GCC) amounted to Euros 6.0 million, down 16 percent from 2008. In the same year, GL trade in the opposite direction (from the GCC to the TCC) amounted to Euro 811,637, down 41 percent from 2008.

The Green Line Regulation provides special rules for trade across the buffer zone. The maximum allowable ceiling on the total value of goods contained in the personal luggage of persons crossing the Green Line is currently Euros 260 (USD 390). Details on the Green Line Regulation are available from:

http://www.europa-eu-un.org/articles/en/artic le_7955_ en.htm

On May 1, 2004, the Republic of Cyprus joined the European Union as a full member. The EU *acquis communautaire* has been temporarily suspended in the northern part of the island due to the unresolved political situation.

A plan for the reunification of the island, drafted under the auspices of the UN and dubbed "the Annan Plan," was submitted to the two communities for approval in separate but simultaneous referenda on April 24, 2004. The plan was approved by the majority of Turkish Cypriots but rejected by the majority of Greek Cypriots. Negotiations for the resolution of the Cyprus problem between the Greek Cypriot and Turkish Cypriot leaders continue to the present day.

Corruption

Government-Controlled Area:

In the government-controlled area of Cyprus, corruption, both in the public and private sectors, constitutes a criminal offense. Furthermore, under Cyprus's Constitution, the Auditor General controls all disbursements and receipts and has the right to inspect all accounts on behalf of the Republic. In his Annual Report, the Auditor General identifies specific instances of mismanagement or deviation from proper procedures in the civil service. Since 1991, Cyprus has also introduced the institution of the "Ombudsman," who oversees the acts or omissions of the administration.

Cyprus cooperates closely with EU and other international authorities on fighting corruption and providing mutual assistance in criminal investigations. Cyprus has signed the European Convention on Mutual Assistance on Criminal matters and is in the process of ratifying it. Cyprus also uses the foreign Tribunal Evidence Law, Chapter 12, to execute requests from other countries for obtaining evidence in Cyprus in criminal matters. Additionally, Cyprus is an active participant in the Council of Europe's Multidisciplinary Group on Corruption. As such, it has already signed and ratified (in 1999 and 2001, respectively) the Criminal Law Convention on Corruption and has joined the "Group of States Against Corruption-GRECO." Furthermore, it diligently attends GRECO meetings.

Additionally, Cyprus's democratic regime, relatively transparent procedures and open, lively press act as a further deterrent against corruption in the civil service. The Embassy is not aware of any U.S. firms identifying corruption as a significant obstacle to foreign direct investment in Cyprus; however, in some cases, U.S.

companies competing on government tenders have expressed concerns about lack of transparency and the appearance of bias in decisions made by the technical committees responsible for preparing specifications and reviewing tender submissions.

Area Administered by Turkish Cypriots:

Although the Embassy is unaware of any recent complaints from U.S. businesses involving corrupt practices in the north, anecdotal evidence suggests that corruption and patronage continue to be a factor in the economy, despite "government" efforts to introduce standards of transparency in licensing and tendering.

Bilateral Investment Agreements Government-Controlled Area:

The Government of Cyprus has 15 bilateral agreements for the encouragement and reciprocal protection of investments with the following countries: Armenia, Belgium, Bulgaria, Belarus, China, Egypt, Greece, Hungary, India, Israel, Lebanon, Poland, Romania, and the Seychelles. Another 40 bilateral investment agreements are currently under negotiation. Cyprus does not have a bilateral investment protection agreement with the United States; however, the Cypriot Ministry of Foreign Affairs and the U.S. State Department have exchanged letters on the reciprocal protection of investments.

Cyprus has entered into bilateral double tax treaties with a total of 40 countries. The main purpose of these treaties is the avoidance of double taxation of income earned in any of these countries. Under these agreements, a credit is usually provided for tax levied by the country in which the taxpayer resides for taxes imposed in the other treaty country. The effect of these arrangements is normally that the taxpayer pays no more than the higher of the two rates. Cyprus has such agreements with Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Canada, China, the Czech Republic, Denmark, Egypt, France, Germany, Greece, Hungary, India, Ireland, Italy, Kuwait, Kyrgyzstan, Malta, Mauritius, Moldova, Norway, Poland, Romania, Russia, Singapore, Slovakia, Slovenia, South Africa, Sweden, Syria, Tajikistan, Thailand, Ukraine, United Kingdom, the United States, and Yugoslavia. Treaties with Algeria, Estonia, and Kazakhstan are at various stages of negotiations.

The Republic of Cyprus has Trade Centers (under the Ministry of Commerce, Industry and Tourism) in eleven locations outside Cyprus, including one in New York City handling trade with the United States of America, Canada, and Latin America. The full list of these offices can be downloaded from:

<http://www.mcit.gov.cy>

Contact details for the New York Trade Center follow:

Mr. Aristos Constantinou
Commercial Counsellor
Cyprus Trade Centre in New York
13 East 40th Street
New York, NY 10016
Tel: 212-213-9100
Fax: 212-213-2918
E-mail: ctcny@cyprustradeny.org
<http://www.cyprustradeny.org>

OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) is not active in Cyprus, but OPIC finance and insurance programs are open and may be useful when bidding on BOT contracts in the government-controlled area. The Government of Cyprus has started a campaign to attract U.S. corporate investors. Cyprus is a member of the Multilateral Investment Guarantee Agency (MIGA).

Labor Government-Controlled Area:

The labor force in the government-controlled area of Cyprus is estimated at 391,000 persons. The breakdown by broad sector is: agriculture and mining, 8.2 percent; industry and construction, 20.5 percent; and services, 71.1 percent (including 28.0 percent in trade and tourism).

At the end of 2009, unemployment in Cyprus exceeded 6.0 percent, the highest it has been since 1977 due to the effects of the global economic downturn. Still, unemployment in Cyprus compares favorably with the Eurozone average of 10 percent.

Cyprus has a high per capita rate of college graduates, including many U.S. university graduates, and offers an abundant supply of white-collar workers. English is widely spoken, a legacy of Cyprus's experience as a British colony (until 1960).

In response to labor shortages in recent years, more women have joined the labor force (women are now about 44.0 percent of the labor force, compared with 33.4 percent in 1980) and a growing number of Cypriots are repatriating from abroad. In 2008, Cyprus hosted about 65,000 legally-registered foreign workers, including about 15,000 live-in domestic servants. There are also many illegal workers -- more than 30,000 according to one unofficial estimate --with the rate of illegal immigration increasing.

The legislated minimum wage (effective September 2009) for sales assistants, clerks, paramedical, and child care staff is currently around USD 1,186 per month, rising to USD 1,260 after six months' employment. Neither amount is sufficient to provide a decent standard of living for a worker and family. All other occupations, including unskilled workers, are covered under collective bargaining agreements between trade unions and employers within the same economic sector, and the wages set in these agreements are significantly higher than the legislated minimum wage. Existing legislation requires that foreign workers receive at least the minimum wage. The starting minimum wage for foreign domestic servants, however, is USD 330 per month plus USD 88 for lodging if the worker is not a live-in.

Currently, about 70.0 percent of the labor force is unionized (compared to 80.0 percent in 1980), which gives the unions a strong say in collective agreements. Head-on confrontations between management and unions do occur, although long-term work stoppages are rare. A recent study by Harvard University covering 60 countries found that union power in Cyprus was perceived to be "the strongest in the world," while labor relations were "relatively peaceful." International business companies are not required to hire union labor. Wages and salaries economy wide are adjusted for inflation twice a year through an automatic Cost of Living Allowance (COLA). COLA has been in existence for many years, helping preserve labor peace but also undermining competitiveness. Efforts are currently underway to amend the way COLA is calculated.

Residency and Employment Permits

Non-EU residents wishing to establish a company in Cyprus need to obtain a residence and employment permit by the Civil Registry and Migration Department. The process of applying for and obtaining such permits can be complex. A Temporary Residency application (without the right to work in Cyprus) requires a bank guarantee and a full medical insurance certificate, valid for one year, along with multiple forms that need to be filled out. Applying for an employment permit is more complicated, involving, for example, a requirement on the part of the employer to place an ad in local media, as well on EURES (the EU's seasonal employment portal) for the specific position. Only if there are no other applicants from Cyprus or the rest of the EU after six weeks can the GOC consider the non-EU applicant. Applying for permanent residency requires continued presence in Cyprus for over 10 years, being over the age of 30 and having a clean police record. Such applications are reviewed on a case-by-case basis by an inter-agency committee, comprising of Ministry of Commerce, Ministry of Interior, Ministry of Labor and other officials.

Exceptionally wealthy investors, for their part, may apply to the GOC for permanent residency status, provided they meet the following criteria (approved in November 2007).

-- Direct investor applicants must have in Cyprus direct investments (e.g. real estate, factories) in excess of Euros 26 million.

-- Business applicants must have established in Cyprus companies with a total turnover of over Euros 86 million the year preceding the application.

-- Bank depositor applicants must have bank deposits in Cyprus in excess Euros 17 million for a minimum five-year term.

-- Alternatively, an applicant must have over Euros 26 million invested in a combination of the above.

Area Administered by Turkish Cypriots:

The labor force in the area administered by Turkish Cypriots is estimated at 92,000. The breakdown of employment by sector is as follows: 6.0 percent in agriculture, 9.8 percent in manufacturing and utilities, 12.0 percent in construction, and 72.0 percent in services (including in trade and tourism). The minimum wage effective September 2009 was 1,237 Turkish Lira (TL) per month (around USD 840). The rate of unemployment is estimated at around 9.8 percent.

There is ample supply of university graduates. Foreign persons obtain work permits through their employer. Foreigners have the option of importing their key personnel, and employers can hire trainees and part-time workers. Full-time working hours are 40 hours per week.

Foreign-Trade Zones/Free Ports Government-Controlled Area:

Cyprus has three Free Zones (FZs). The first two, located in the main seaports of Limassol and Larnaca, are used only for transit trade, while the third, located near the international airport in Larnaca, can also be used for repacking and reprocessing. These areas are treated as being outside normal EU customs territory. Consequently, non-EU goods placed in FZs are not subject to any import duties, VAT or excise tax. FZs are governed under the provisions of relevant EU and Cypriot legislation. The Department of Customs has jurisdiction over all three areas and can impose restrictions or prohibitions on certain activities, depending on the nature of the goods. Additionally, the Ministry of Commerce, Industry and Tourism has management oversight over the Larnaca FZ.

Companies given permission to locate in the Larnaca FZ take advantage of the fact that the FZ operates outside the normal jurisdiction of Cyprus Customs. This allows the company to import raw materials or goods for transshipment without paying the normal import duty and VAT. The only limitation is that the goods must be sold or re-exported strictly outside the EU. If the company wants to do business with the local market, it must obtain permission from Customs and pay the appropriate duties.

The procedure for applying is straightforward. Interested companies apply to the Ministry of Commerce, Industry, and Tourism (contact info given below), laying out their investment plans. The Ministry reviews the application and makes a recommendation. An inter-agency Council, with participation from the Central Bank of Cyprus and the Ministry of Finance, reviews the application and the Ministry of Commerce, Industry and Tourism issues approval. Contact information follows:

Mr. George Michael
Commerce and Industry Officer A'
Ministry of Commerce,
Industry and Tourism
1421 Nicosia
Tel. 357-22-867235
Fax. 357-22-375120
E-mail: mcindustry2@cytanet.com.cy
Website: <http://www.mcit.gov.cy>

Area Administered by Turkish Cypriots:

Regulated by the "Free-Ports and Free Zones Law", there exists a

free port and zone area in Famagusta.

Operations and activities permitted in the Free Port and Zone are as follows:

- Engaging in all kinds of industry, manufacturing and production.
- Storage and export of goods imported to the Free Port and Zone.
- Assembly and repair of goods imported to the Free Port and Zone.
- Building, repair and assembly of all kinds of ships.
- Banking and insurance services.

Incentives provided to businesses established in the Free Port and Zone are as follows:

- All income derived from activities and operations undertaken by investors in the Free Port and Zone are exempt from Corporate and Income Tax. This exemption does not apply to the exports of goods and services not manufactured and undertaken in the Free Port and Zone and that are directed to the "TRNC".
- No limit on repatriation of profit and capital
- Exemption from custom duties and indirect taxes.
- Permission to employ foreign expert, engineer and technical personnel.

Foreign Direct Investment Statistics

Government-Controlled Area:

In the run-up to EU accession (May 1, 2004), Cyprus dismantled most investment restrictions, attracting increased flows of Foreign Direct Investment (FDI), particularly from the EU. According to the latest United Nations Conference on Trade and Development (UNCTAD) "World Investment Report 2008," Cyprus ranks among the world leaders in terms of attracting foreign direct investment on a per capita basis.

In 2008, the inflow of FDI (including "brass plate" companies) reached USD 4.0 billion. The geographic origin of this investment was 36.2 percent from the EU; and 49.8 percent from non-EU countries in Europe. In terms of sectoral allocation, incoming FDI in 2008 went to the following sectors: construction 1.4 percent; trade and repairs 15.2 percent; transport and communication 5.5 percent; financial intermediation 48.0 percent; and real estate and business activities 29.7 percent.

The flow of U.S. investment in Cyprus reached USD 42.0 million in 2008 or 1.0 percent of Cyprus' total inward FDI. The stock of U.S. investment in the island was USD 434.8 million at the end of 2008. Projects involving U.S. investment in recent years have included real estate and various business activities, including a well-known U.S. coffee retailing franchise, a university, an information technology firm, an equestrian center, a hair products manufacturing unit, a firm trading in health and natural foodstuffs, an oil field products manufacturer, and a financial services company. U.S. investors may benefit from Cyprus's abolition of EU-origin investment restrictions, provided they operate through EU subsidiaries.

Additional information on foreign direct investment statistics can be obtained from:

<http://www.cipa.org.cy>

Area Administered by Turkish Cypriots:

No detailed statistics on investment in the area administered by Turkish Cypriots are available. However, it is clear that most foreign direct investment in north Cyprus since 1974 has come from Turkey - both from the government and the private sectors. The sectors, which have attracted most investment are tourism and real estate.

Web Resources

Government-Controlled Area

American Embassy in Nicosia:

<http://cyprus.usembassy.gov>

Commercial Section in Nicosia:

<http://www.buyusa.gov/cyprus/en>

Government of Cyprus portal:

<http://www.cyprus.gov.cy>

Ministry of Foreign Affairs:

[http://www.mfa.gov.cy/mfa/properties/occupied_area_pro](http://www.mfa.gov.cy/mfa/properties/occupied_area_properties.nsf/index_en/index_en?OpenDocument)

[perties.nsf/index_en/index_en?OpenDocument](http://www.mfa.gov.cy/mfa/properties/occupied_area_properties.nsf/index_en/index_en?OpenDocument)

Point of Single Contact (Ministry of Commerce, Industry and Tourism):

<http://www.businessincyprus.gov.cy>

Cyprus Investment Promotion Agency:

<http://www.cipa.org.cy>

Ministry of Interior:

<http://www.moi.gov.cy/da>

Ministry of Finance:

<http://www.mof.gov.cy/mof/mof.nsf/Main?OpenFrameset>

Central Bank of Cyprus:

<http://www.centralbank.gov.cy>

Department of Merchant Shipping:

<http://www.shipping.gov.cy>

Cyprus Bar Association:

http://www.cyprusbarassociation.org/news_en.php

The UK Foreign and Commonwealth Office:

[http://www.fco.gov.uk/en/about-the-fco/country-](http://www.fco.gov.uk/en/about-the-fco/country-profiles/europe/cyprus)

[profiles/europe/cyprus](http://www.fco.gov.uk/en/about-the-fco/country-profiles/europe/cyprus)

Green Line Regulation:

http://www.europa-eu-un.org/articles/en/article_7955_en.htm

Government of Cyprus portal on state-owned organizations:

<http://www.cyprus.gov.cy/portal/portal.nsf/All/F241410>

[9880E837BC2256FA3002FEA11?OpenDocument&a=1&z=](http://www.cyprus.gov.cy/portal/portal.nsf/All/F241410)

Commission for the Protection of Competition:

[http://www.competition.gov.cy/competition/competition.](http://www.competition.gov.cy/competition/competition.nsf/index_en/index_en?opendocument)

[nsf/index_en/index_en?opendocument](http://www.competition.gov.cy/competition/competition.nsf/index_en/index_en?opendocument)

Area Administered by Turkish Cypriots

"TRNC State Planning Organization:"

<http://www.devplan.org/>

Turkish Cypriot Chamber of Commerce:

<http://www.ktto.net/english/about.html>

"North Cyprus Investment Development Agency:"

<http://www.investinnorthcyprus.org>

"TRNC Central Bank":

<http://www.kktcmb.trnc.net/>

END TEXT

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